101ST CONGRESS
1st Session
HOUSE OF REPRESENTATIVES
REPT. 101-278
Part 1

POLISH AND HUNGARIAN DEMOCRACY INITIATIVE OF 1989

OCTOBER 11, 1989.—Ordered to be printed

Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H.R. 3402 which on October 4, 1989, was referred jointly to the Committee on Foreign Affairs, the Committee on Banking, Finance and Urban Affairs, and the Committee on Ways and Means]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 3402) to promote political and economic democracy in Poland and Hungary as those countries develop and implement programs of comprehensive economic reform, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE AND SUMMARY

H.R. 3402, the "Polish and Hungarian Democracy Initiative of 1989," is a positive response to the profound political, economic, and social change underway in Eastern Europe, specifically Poland and Hungary, where the reform process is most advanced. The basic purpose of the measures included in H.R. 3402 is to acknowledge the important progress by these two countries and to provide them assistance to address pressing economic and social problems and to continue comprehensive reform.

H.R. 3402, as introduced and ordered favorably reported by the Committee on Ways and Means, contains five titles of assistance measures for Poland and Hungary. Title I directs U.S. participation in multilateral support measures for structural adjustment, including a minimum level of $125 million for agricultural assistance to Poland in fiscal year 1990. Title II contains private sector development measures, including authorizations for Enterprise Funds, technical assistance for labor market reforms and adjustment, tech-

39-006

H783-10

nical training programs for the private sector, additional support for Peace Corps programs, and use of local currency for agriculture development in Poland. Title III contains trade and investment measures that include, in addition to section 301, making Poland and Hungary eligible for Overseas Private Investment Corporation and Export-Import Bank programs and authorizing trade credit insurance and expanded Trade and Development programs. Title IV supports expanded educational and cultural exchange activities and authorizes a scholarship assistance program and continued implementation of the 1987 U.S.-Poland science and technology agreement. Title V authorizes additional assistance to support democratic institutions and environmental initiatives and to provide medical supplies and training for Poland.

Committee Action

While H.R. 3402 was jointly referred to the Committees on Ways and Means, Foreign Affairs, and Banking, Finance, and Urban Affairs, the Committee on Ways and Means considered section 301 of the bill, the only provision within its direct jurisdiction. Section 301 is identical to section 2 of H.R. 2356 and H.R. 2550, considered by the Committee in June 1989.

On June 12, 1989, the Subcommittee on Trade received testimony in a public hearing from the Administration and a trade association representing importers and exporters in support of section 2, removing Poland from the statutory list of countries ineligible for designation as beneficiaries of duty-free treatment under the Generalized System of Preferences (GSP).

On June 14, the Subcommittee on Trade ordered H.R. 2550 favorably reported to the full Committee by voice vote with no amendments.

On June 20, the Committee on Ways and Means ordered H.R. 2550 favorably reported to the House by voice vote with no amendments.

On October 11, the Committee on Ways and Means ordered H.R. 3402 favorably reported to the House by voice vote with no amendments.

Section-by-Section Analysis, Justification, and Comparison With Present Law

The only provision of H.R. 3402 within the direct jurisdiction of the Committee on Ways and Means is section 301, concerning the eligibility of Poland for GSP benefits. Consequently, this report relates only to section 301 of H.R. 3402, as ordered reported by the Committee. Section 301 is identical to section 2 of H.R. 2550, previously reported favorably by the Committee and passed by the House under suspension of the rules on June 20. 1989.

SECTION 301. ELIGIBILITY OF POLAND FOR GENERALIZED SYSTEM OF PREFERENCES

Present law

Title V of the Trade Act of 1974, as amended, authorizes the President to designate developing countries as beneficiaries of duty-

free treatment on imports of their products that are designated by the President as eligible articles under the Generalized System of Preferences. Section 502(b) of the Act prohibits the President from designating a specific list of countries as GSP beneficiaries. Poland is one of the countries on this statutory exclusion list.

Removal of a country from the statutory exclusion list does not automatically confer GSP beneficiary status. Section 502(b) also prohibits the President from designating countries that meet certain statutory criteria, some of which may be waived in the U.S. national economic interest. For example, the President cannot designate any communist country, unless its products receive most-favored-nation (MFN) treatment, it is a Contracting Party to the General Agreement on Tariffs and Trade (GATT) and a member of the International Monetary Fund (IMF), and it is not dominated or controlled by international communism. Section 502(c) of the Act also requires the President to take into account a statutory list of factors in designating any beneficiary developing country. Finally, section 502(a) requires the President to give advance notice to the Congress of his intention to designate any country as a GSP beneficiary and the considerations entering into his decision.

Explanation of provision

Section 301 of H.R. 3402 amends section 502(b) of the Trade Act of 1974 to remove Poland from the statutory list of countries prohibited from designation for GSP benefits, effective on date of enactment. Section 301 does not amend any of the criteria under present law that the President must determine are met or take into account before designating Poland as a GSP beneficiary developing country.

Reasons for change

Section 301 is part of a larger legislative effort to formulate a program of assistance in response to the dramatic developments in Poland of recent months. There is also considerable support for removing Poland from the GSP exclusion list in the Congress and in the private sector business community.

The GSP program was designed to provide special preferential duty-free access to the U.S. market for developing countries as a economic development tool. The purpose of including the exclusion list in the statute in 1974 was to ensure that the President did not designate any countries for such preferential treatment that were considered at the time to be already developed. Since 1974, only Hungary has been removed from the list. As in the case of Hungary, Poland's per capita gross national product (GNP) of $2,070 in 1986 and $1,920 in 1987 is less than the per capita GNP of a number of other beneficiary developing countries under the GSP program. Poland's per capita GNP is also well below the statutory ceiling of $8,500, indexed upward to $9,001 in 1986 and $9,728 in 1988, above which countries cannot be granted GSP beneficiary treatment. While per capita GNP is not necessarily an adequate or the sole measure of development level, the Committee does believe that economic circumstances in Poland generally warrant deletion from the statutory GSP exclusion list.

U.S. imports from Poland totaled about $370 million in 1988. If Poland had received GSP beneficiary status in 1988, total GSP imports from that country of products eligible for duty-free treatment would have totaled about $73.2 million and U.S. customs duties foregone would have amounted to $3.5 million. The Committee notes that Poland is a member of both the GATT and the IMF and currently receives MFN treatment on its exports to the United States.

However, the Committee expects the President to apply all of the standards set forth in the GSP statute in determining whether, in fact, Poland merits designation as a beneficiary developing country. The possible designation of Poland as a developing country for purpose of GSP benefits also does not necessarily mean that it should be regarded as a developing country in other contexts.

Other Matters Required To Be Discussed Under the Rules of the House

VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with clause 2(l)(2)(B) of rule XI of the Rules of the House of Representatives, the following statement is made relative to the vote of the Committee in reporting the bill: H.R. 3402 was ordered favorably reported by the Committee on Ways and Means by voice vote.

OVERSIGHT FINDINGS

In compliance with clause 2(l)(3)(A) of rule XI of the Rules of the House of Representatives relating to oversight findings, the Committee has concluded from the public hearing record of the Subcommittee on Trade on the identical provision in earlier legislation and review of the situation in Poland that the legislative initiative in section 301 of H.R. 3402 is warranted.

With respect to clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings or recommendations have been submitted to the Committee by the Committee on Government Operations with respect to the subject matter contained in the bill.

BUDGET AUTHORITY AND COST ESTIMATES, INCLUDING ESTIMATES OF THE CONGRESSIONAL BUDGET OFFICE

In compliance with clause 7(a) of rule XIII and with clause 2(l)(3)(B) of rule XI of the Rules of the House of Representatives, the Committee states that section 301 of H.R. 3402 does not provide any new budget authority or any new or increased tax expenditures. The Committee also states that there are no tax expenditures or new budgetary authority providing financial assistance to State and local governments in section 301 of the bill.

In compliance with clause 7(a) of rule XIII and with clauses 2(l)(3) (B) and (C) of rule XI of the Rules of the House of Representatives, the Committee agrees with the cost estimates furnished by the Congressional Budget Office on H.R. 3402 and required to be included herein:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, October 11, 1989.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed section 301 of H.R. 3402, as ordered reported by the House Committee on Ways and Means on October 11, 1989. This section of the bill removes Poland from the statutory list of countries that are not eligible to receive Generalized System of Preferences (GSP) benefits under the Trade Act of 1974. Removal of Poland from the statutory exclusion list does not automatically grant them GSP status, but rather it gives the President authority to designate them as a recipient of GSP benefits. Countries granted GSP status receive duty-free treatment on imports of their products if those products are designated by the President as eligible articles under the Generalized System of Preferences. Because section 301 does not directly change Poland's status, CBO estimates this provision to have no budgetary effect.

If you wish further details, please feel free to contact me or your staff may wish to contact Caroline Ratcliffe of the Tax Analysis Division at 226-2720.

Sincerely,

ROBERT D. REISCHAUER,
Director.

INFLATIONARY IMPACT

With respect to clause 2(l)(4) of rule XI of the Rules of the House of Representatives, the Committee states that section 301 of H.R. 3402, authorizing the granting of GSP benefits to Poland, would not have an inflationary impact on prices and costs in the operation of the general economy.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTION 502 OF THE TRADE ACT OF 1974

SEC. 502. BENEFICIARY DEVELOPING COUNTRY.

(a) * * *

(b) No designation shall be made under this section with respect to any of the following:

Australia	Finland
Austria	Germany (East)
Canada	Iceland
Czechoslovakia	Japan
European Economic Community member states	Monaco
	New Zealand

Norway
[Poland]
Republic of South Africa
Sweden
Switzerland
Union of Soviet Socialist Republics

In addition, the President shall not designate any country a beneficiary developing country under this section—

(1) * * *

* * * * * * *

SECTION 239 OF THE FOREIGN ASSISTANCE ACT OF 1961

SEC. 239. GENERAL PROVISIONS AND POWERS.—(a) * * *

* * * * * * *

(f) Except for the provisions of this title, no other provision of this or any other law shall be construed to prohibit the operation in Yugoslavia, *Poland, Hungary,* or the People's Republic of China of the programs authorized by this title, if the President determines that the operation of such program in such country is important to the national interest.

* * * * * * *

SECTION 2 OF THE EXPORT-IMPORT BANK ACT OF 1945

SEC. 2. (a) * * *

(b)(1) * * *

(2) PROHIBITION ON AID TO MARXIST-LENINIST COUNTRIES—

(A) * * *

(B)MARXIST-LENINIST COUNTRY DEFINED.—

(i) IN GENERAL.—For the purposes of this paragraph, the term "Marxist-Leninist country" means any country which—

(I) maintains a centrally planned economy based on the principles of Marxist-Leninism, or

(II) is economically and militarily dependent on the Union of Soviet Socialist Republics or on any other Marxist-Leninist country.

(ii) SPECIFIC COUNTRIES DEEMED TO BE MARXIST-LENINIST.—Unless otherwise determined by the President in the manner provided in subparagraph (C), the following countries are deemed to be Marxist-Leninist countries for purposes of ths paragraph:

Cambodian People's Republic.
Cooperative Republic of Guyana.
Czechoslovak Socialist Republic.
Democratic People's Republic of Korea.
Democratic Republic of Afghanistan.
Estonia.
German Democratic Republic.
[Hungarian People's Republic.]
Lao People's Democratic Republic.
Latvia.

Lithuania.
Mongolian People's Republic.
People's Democratic Republic of Yemen.
People's Republic of Albania.
People's Republic of Angola.
People's Republic of Benin.
People's Republic of Bulgaria.
People's Republic of China.
People's Republic of the Congo.
People's Republic of Mozambique.
[Polish People's Republic.]
Republic of Cuba.
Republic of Nicaragua.
Socialist Ethiopia.
Socialist Federal Republic of Yugoslavia.
Socialist Republic of Romania.
Socialist Republic of Vietnam.
Surinam.
Tibet.
Union of Soviet Socialist Republics (including its captive constituent republics).

(iii) SPECIFIC COUNTRIES DEEMED NOT TO BE MARXIST-LENINIST.—Notwithstanding clause (i), the following countries are deemed not to be Marxist-Leninist countries for purposes of this paragraph:

(I) Hungarian People's Republic.
(II) Polish People's Republic.

* * * * * * *

○